



REPORT OF THE AUDITOR-GENERAL TO THE NORTH WEST PROVINCIAL LEGISLATURE AND THE COUNCIL ON THE DR RUTH SEGOMOTSI MOMPATI DISTRICT MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of Dr Ruth Segomotsi Mompoti District Municipality as set out on pages [XX] to [XX], which comprise the statement of financial position as at 30 June 2011, the statement of financial performance, statement of changes in net assets and the cash flow statement for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP), the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2010 (Act No. 1 of 2010) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the *General Notice* issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of Dr Ruth Segomotsi Mompoti District Municipality as at 30 June 2011, and its financial performance and cash flows for the year then ended in accordance with SA Standards of GRAP and the requirements of the MFMA and the DoRA.

Emphasis of matters

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Significant uncertainties

8. As disclosed in note 38.2.8 and 38.2.10 to the financial statements, the municipality is the defendant in a flooding-claim lawsuit by Santam and Mutual and Federal Insurance. The municipality is opposing the claim as it believes the claim to be fraudulent. The ultimate outcome of the matter cannot presently be determined and no provision for any liability that may result has been made in the financial statements.

Restatement of corresponding figures

9. As disclosed in note 33 to the financial statements, the corresponding figures for bonus accrual have been restated as a result of an error discovered during the current financial year.

Unauthorised, irregular and fruitless and wasteful expenditure

10. As disclosed in note 34.1 to the financial statements, unauthorised expenditure of R56 808 945 (2010: R81 693 052) was incurred, as a result of over-spending on the budget.

11. As disclosed in note 34.3 to the financial statements, irregular expenditure of R16 178 072 (2010: R16 815 872) has not been condoned. Irregular expenditure of R208 739 was incurred and R846 539 was condoned in the current year.

Material impairments

12. As disclosed in note 2 to the financial statements, impairments of R11 149 626 (2010: R10 277 099) were incurred as a result of a provision of irrecoverable trade and other receivables.

Additional matter

13. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited supplementary schedules

14. The supplementary information set out on pages [XX] to [XX] does not form part of the financial statements and is presented as additional information. I have not audited these annexures and, accordingly, I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

15. In accordance with the PAA and the *General Notice* issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

Predetermined objectives

16. I am unable to report findings on the usefulness and reliability of the annual performance report of Dr Ruth Segomotsi Mompati District Municipality as it was not prepared as required by section 46 of the Municipal Systems Act, 2000 (Act No 32 of 2000) (MSA) and section 121(3)(c) of the MFMA.

Compliance with laws and regulations

17. I performed procedures to obtain evidence that the entity has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the *General Notice* issued in terms of the PAA are as follows:

Budget

18. The municipality incurred expenditure not budgeted for and incurred expenditure in excess of the limits provided for in the votes of the approved budget, in contravention of section 15 of the MFMA.

Financial misconduct

19. Effective and appropriate disciplinary steps were not taken against officials who made and/or permitted unauthorised and irregular expenditure as disclosed in note 34 to the financial statements, as required by section 171(4)(b) of the MFMA.

Annual financial statements, performance and annual report

20. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements identified by the auditors relating to property, plant and equipment, capital commitments and irregular expenditure were adequately corrected, which resulted in the financial statements receiving an unqualified opinion.
21. The accounting officer did not submit the financial statements for auditing within two months after the end of the financial year, as required by section 126(1)(a) of the MFMA.
22. The 2009/10 annual report was not tabled in the municipal council within seven months after the end of the financial year, as required by section 127(2) of the MFMA.
23. The annual performance report for the year under review does not include names of external service providers, a comparison of the performance with set targets, a comparison with the previous financial year and measures taken to improve performance, as required by section 46 (1) of the MSA.

Expenditure management

24. The accounting officer did not take reasonable steps to prevent unauthorised expenditure as required by section 62(1)(d) of the MFMA.
25. The accounting officer did not take effective steps to prevent irregular expenditure and fruitless and wasteful expenditure, as required by section 95(d) of the MFMA.

Water services delivery agreement

26. The municipality did not enter into a service delivery agreement between itself, the water service authority, and the Botshelo Water Board, the water service provider, assigning responsibility to the water services provider for the managing of its own accounting and financial management frameworks as required by section 81 of the MSA and regulation 11 of the Water Services Provider Contract Regulations issued in terms of the Water Service Act, 1997 (Act No. 108 of 1997).

Internal control

27. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the basis for disclaimer of opinion, the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

Leadership

28. Leadership did not exercise appropriate oversight over financial and performance reporting and related internal controls, while sufficient and adequate policies and procedures to address planning, implementation, monitoring and reporting processes is lacking.

Financial and performance management

29. Management did not implement effective controls to ensure that information presented in the financial statements is reliable before submission for audit. Further, management did not review and monitor compliance with applicable laws and regulations.

Governance

30. Actions to identify internal controls deficiencies and risk identification, including information technology and fraud prevention were not taken.

Auditor General

Rustenburg

25 March 2013



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence